

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05  
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 XMB-02  
FEA-01 CIAE-00 COME-00 EA-07 FRB-03 INR-07 IO-13  
NEA-10 NSAE-00 OPIC-03 LAB-04 SIL-01 AGRE-00 /112 W  
-----053707 230810Z /12

P R 230635Z JUN 77  
FM AMEMBASSY ANKARA  
TO SECSTATE WASHDC PRIORITY 7933  
INFO AMEMBASSY ATHENS  
AMEMBASSY NICOSIA  
AMCONSUL ISTANBUL  
AMCONSUL ADANA  
AMCONSUL IZMIR  
AMEMBASSY PARIS  
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 4778

USOECDD, USEEC

E.O. 11652: GDS  
TAGS: EFIN, TU  
SUBJECT: UP-DATE OF TURKISH FOREIGN EXCHANGE SITUATION

REF: STATE 138603

SUMMARY. CERTAIN ELEMENTS OF TURKISH INTERNATIONAL PAYMENTS  
AND EXCHANGE SITUATION -- TOTAL CONVERTIBLE LIRA LOANS OUT-  
STANDING; WORLDWIDE OVERDRAFT OF CENTRAL BANK; AND, IT COULD  
HAVE BEEN SAID, LEVEL OF OFFICIAL GOLD AND FOREIGN EXCHANGE  
RESERVES -- HAVE NEITHER WORSENERED NOR IMPROVED SIGNIFICANTLY  
OVER THE LAST MONTH OR SO, ACCORDING TO YAVUZ CANEVI, DIRECTOR  
GENERAL FOR FOREIGN EXCHANGE, TURKISH CENTRAL BANK. IN CON-  
VERSATION WITH ECON COUNSELOR JUNE 21, HE NOTED THAT THERE HAVE  
ALSO BEEN SOME UNFAVORABLE DEVELOPMENTS. NET ENTRIES OF  
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CONVERTIBLE LIRA LOANS DURING PAST 2-3 WEEKS HAVE BEEN NEGATIVE,  
NECESSITATING STANDBY CREDIT OF UP TO \$100 MILLION FROM BANK  
FOR INTERNATIONAL SETTLEMENTS. IMPORTS CONTINUE TO FLOOD  
INTO COUNTRY DESPITE FACT THAT CENTRAL BANK HAS WITHHELD  
TRANSFER OF FOREIGN EXCHANGE FOR ANY BUT MOST ESSENTIAL ITEMS;  
IMPORTERS ARE RESORTING TO DEFERRED PAYMENT ARRANGEMENTS OF  
ALL KINDS IN ANTICIPATION OF DEVALUATION WHEN A POST-

ELECTION GOVERNMENT EFFECTIVELY TAKES CHARGE. EXPORTERS, FOR THEIR PART ARE HOLDING BACK SALES, TO FURTHER DETRIMENT OF TRADE ACCOUNT. DEVALUATION SPECULATION IS ALSO CAUSING TURKISH WORKERS ABROAD TO STOP REMITTING FOREIGN EXCHANGE TO TURKEY EXCEPT FOR BARE MINIMUM NEEDED BY THEIR FAMILIES HERE. ON BALANCE, HOWEVER, CANEVI SEEMED TO FEE THAT SITUATION NOW WAS SOMEWHAT BETTER THAN THREE MONTHS AGO. HE THOUGHT THAT IT WOULD CONTINUE TO BE MANAGEABLE EVEN IF THERE SHOULD BE AN EXTENDED PERIOD OF MANEUVERING BEFORE A NEW GOVERNMENT RECEIVES VOTE OF CONFIDENCE. END SUMMARY.

1. ECON COUNSELOR CALLED ON YAVUZ CANEVI, DIRECTOR GENERAL FOR FOREIGN EXCHANGE, CENTRAL BANK, JUNE 21, A FEW HOURS BEFORE PRIME MINISTER ECEVIT ANNOUNCED HIS CABINET, FOR UP-DATE ON TURKISH FOREIGN EXCHANGE PROBLEM. CANEVI SAID THAT SITUATION WAS BETTER THAN THREE MONTHS AGO BUT THAT IT HAD NOT CHANGED MUCH IN THE LAST MONTH. IMPLICIT IN THIS COMMENT WAS FACT THAT OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES HAVE FLUCTUATED AROUND \$600 MILLION SINCE EARLY MAY. (FIGURE FOR JUNE 10, LATEST DATE AVAILABLE, WAS \$657 MILLION.) CANEVI BELIEVED THAT SITUATION COULD BE KEPT FROM GETTING MUCH WORSE EVEN IF THERE SHOULD BE EXTENDED PERIOD OF MANEUVERING BEFORE A NEW GOVERNMENT COULD EFFECTIVELY TAKE CHARGE.

2. CONVERTIBLE LIRA DEPOSITS (CLD'S). CLD'S OUTSTANDING JUNE 17, LAST DATE FOR WHICH FIGURE IS AVAILABLE, AMOUNTED CONFIDENTIAL

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TO \$2.12 BILLION, CANEVI SAID. THIS FIGURE HAS SHOWN NO GROWTH OVER LAST TWO MONTHS OR SO, BUT NO DECLINE EITHER. TOTAL VALUE OF CLD'S MATURING DURING JUNE-AUGUST 1977 IS \$350 MILLION (NOT \$600 MILLION AS SOMETIMES REPORTED IN PRESS).

3 CANEVI SAID THAT CENTRAL BANK HAS BEEN ABLE TO MEET ALL DEMANDS FOR REPAYMENT OF THESE SHORT-TERM LOANS. IN SOME CASES, HE ACKNOWLEDGED, THERE HAD BEEN A DELAY IN PAYING OF A FEW DAYS. (EMBASSY HAS HEARD FROM AMERICAN BANKING SOURCE THAT DELAYS HAVE BEEN 7-10 DAYS.)

4. DEMANDS FOR REPAYMENT HAVE NOT BEEN EXCESSIVE, HE SAID. A NUMBER OF BANKS HAVE, HOWEVER, BEEN TESTING CENTRAL BANK'S ABILITY TO REPAY BY CALLING LOANS UPON MATURITY, ONLY TO RE-DEPOSIT REPAYMENTS IN A WEEK.

5. IN LAST 2-3 WEEKS, FOR FIRST TIME, HOWEVER, NET ENTRIES HAVE BEEN MINUS BY A MODEST AMOUNT, CANEVI SAID. AS RESULT, CENTRAL BANK HAS TRIED TO END REPAYMENT DELAYS. LAST WEEK IT ARRANGED FOR STANDBY CREDIT OF UP TO \$100 MILLION FROM BANK FOR INTERNATIONAL SETTLEMENTS FOR THIS PURPOSE. CREDIT HAS NOT YET BEEN PUBLICLY ANNOUNCED. CANEVI INDICATED IT WOULD

BE FORMALLY SIGNED WITHIN DAYS.

6. IMPORTS AND WORKER REMITTANCES. WHILE BIS STANDBY CREDIT WILL MAKE MANAGEMENT OF CLD'S COMFORTABLE ACCORDING TO CANEVI, HE POINTED TO RUSH FOR IMPORTS AND TO DECLINE IN WORKER REMITTANCES AS ACUTE PROBLEMS RIGHT NOW.

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USOECN, USEEC

7. HE VERIFIED THAT CENTRAL BANK HAS WITHHELD AUTHORIZATION FOR TRANSFER OF FOREIGN EXCHANGE CURRENTLY AMOUNTING TO \$1.2 BILLION, REQUESTED TO PAY FOR IMPORTS. BANK IS ISSUING TRANSFER ORDERS ONLY FOR IMPORTS HAVING TOP PRIORITY: AIRCRAFT, OIL, DEFENSE EQUIPMENT, FOR EXAMPLE. DESPITE THE FACT THAT LITTLE MONEY IS BEING PAID FOR IMPORTS, THERE HAS NOT BEEN ANY NOTICEABLE SHORTAGE OF MATERIALS WITHIN THE COUNTRY, CANEVI COMMENTED. THIS IS BECAUSE IMPORTS ARE STILL FLOODING IN, UNDER DEFERRED PAYMENT ARRANGEMENTS. RESPONDING TO RUMORS OF DEVALUATION AFTER A NEW GOVERNMENT IS ESTABLISHED, IMPORTERS ARE RUSHING BY ALL AVAILABLE MEANS -- THROUGH ACCEPTANCE FINANCING, BY CALLING UPON TRUST OF EXPORTERS, EVEN IN ILLEGAL WAYS -- TO BUILD UP INVENTORIES. IMPORTS BEING MADE ON DEFERRED PAYMENTS, CANEVI NOTED, WILL

IMPOSE HEAVY BURDEN ON TURKEY'S FOREIGN EXCHANGE SIX MONTHS  
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FROM NOW. EXPORTERS, ON OTHER HAND, TO FURTHER DETRIMENT OF  
TRADE ACCOUNT, ARE WITHHOLDING SALES.

8. DEVALUATION SPECULATION HAS ALSO INFLUENCED BEHAVIOR  
OF TURKISH WORKERS ABROAD, CANEVI SAID. THEY HAVE STOPPED  
REMITTING FOREIGN EXCHANGE TO TURKEY EXCEPT FOR BARE MINIMUM  
NEEDED BY THEIR FAMILIES HERE. SPECULATION BY WORKERS IN THIS  
SEASON IS PARTICULARLY DISAPPOINTING BECAUSE REMITTANCES  
TRADITIONALLY PEAK IN SUMMER AS WORKERS RETURN TO TURKEY FOR  
VACATIONS.

9. AS RESULT OF CENTRAL BANK WITHHOLDING TRANSFER ORDERS,  
CANEVI SAID, ITS WORLDWIDE OVERDRAFT HAD BEEN REDUCED A LITTLE  
LATELY FROM ABOUT \$320 MILLION. SIZE OF OVERDRAFT WAS \$310  
MILLION ON MAY 24, HE SAID, CONSULTING RECORDS. (THIS FIGURE  
IS CONSIDERABLY LESS THAN \$1 BILLION GUESSED BY TURKEY CON-  
SORTIUM CHAIRMAN WILHELM GIEL DURING HIS RECENT TALKS IN  
WASHINGTON. (SEE REFTEL.)

10. CANEVI BELIEVED THAT THERE WERE A NUMBER OF POSSI-  
BILITIES OPEN TO TURKEY TO IMPROVE THE PAYMENTS PICTURE AS  
SOON AS A NEW GOVERNMENT COULD TAKE HOLD. HE UNDERSTOOD  
THAT PRIME MINISTER ECEVIT HAS ALREADY ARRANGED SOME  
FOREIGN CREDITS FOR TURKEY. NEW GOVERNMENT, ONCE APPROVED  
BY PARLIAMENT, WAS ALSO LIKELY TO OBTAIN A STANDBY CREDIT  
FROM THE IMF FOR USE DURING THE PERIOD WHEN CONDITIONS FOR  
OTHER IMF LOANS WERE BEING NEGOTIATED. MOREOVER, A NEW GOVERN-  
MENT COULD REDUCE MINIMUM EXPORT PRICES IN ORDER TO INCREASE  
EXPORTS OF CERTAIN AGRICULTURAL COMMODITIES.

11. COMMENT. CANEVI WAS SLIGHTLY MORE OPTIMISTI  
MAN HE HAD APPEARED FOR A LONG TIME. WHILE TURKISH  
FOREIGN EXCHANGE AND PAYMENTS PICTURE REMAINS BLACK, IT  
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IS SO FAR BEING MANAGED. NEXT STEP WILL BE FOR PRIME MINISTER  
ECEVIT, IF HE WINS VOTE OF CONFIDENCE, TO ARRANGE FINANCING  
THAT WILL GIVE TURKEY TIME TO DEVELOP ECONOMIC PROGRAM TO  
TREAT ITS UNDERLYING ILLS AND TO RESTORE INTERNATIONAL  
LENDING.

12. THE FACT IS, HOWEVER, THAT THERE IS STILL LITTLE TO  
REJOICE ABOUT IN THIS PICTURE. REAL FIGURE FOR OFFICIAL RE-

SERVES IS DEEPLY NEGATIVE IN NEW OF DEFERRAL OF IMPORT PAYMENTS BY CENTRAL BANK AND IMPORTERS THEMSELVES AND IN VIEW OF CENTRAL BANK OVERDRAFT. TIME REMAINS A CRITICAL ELEMENT OF THE PROBLEM.

13. CANEVI KNOWS THIS FACT AND DOES NOT GLOSS OVER IT. EMBASSY HAS INVARIABLY FOUND HIM FRANK AND HONEST. WE WOULD ACCEPT AS ACCURATE HIS FIGURES FOR CENTRAL BANK OVERDRAFT, CONVERTIBLE LIRA LOANS OUTSTANDING, VALUE OF IMPORTS FOR WHICH TRANSFERS HAVE BEEN HELD UP, AND CLD'S MATURING JUNE-AUGUST. DILLON

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## Message Attributes

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**To:** STATE  
**Type:** TE  
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